

FOR IMMEDIATE RELEASE

May 21, 1987 - La Jolla, California

A meeting of the Board of Directors of the Satellite Broadcasting Communications Association (SBCA) was held today at the new facilities of General Instrument's VideoCipher Division. Among other agenda items, the specific issues of VideoCipher decoder availability and piracy were thoroughly discussed with the following conclusions resulting:

- Demand for VideoCipher consumer decoders is expected to exceed supply through September, 1987;
- The difference between approximately 100,000 standalone decoders and decoder modules shipped but not authorized was explained;
- Details were presented pertaining to the plans for a substantial increase in capacity which will be in place by Fall, 1987 for production of VideoCipher decoders; and
- Efforts of General Instrument to counter piracy were detailed and those efforts were applauded by the SBCA.

Mr. Larry Dunham, Executive Vice President and General Manager of General Instrument's VideoCipher Division presented information on these issues and responded to questions asked by SBCA Board members. The following is a synopsis prepared by SBCA of that presentation and the responses to the questions asked during the meeting.

CURRENT SHORTAGE

Current production levels of VideoCipher consumer units, on an average basis, for June, July, August and September will be approximately 30,000 2100E standalone units per month and approximately 20,000 modules for integrated receiver/descramblers (IRD) production per month. Based upon a recent SBCA distributor survey approximately 75% of all standalone descramblers are sold to existing systems while 80% of IRD sales

go to new systems. If these ratios continue, based upon the June through September average VideoCipher decoder availability, the number of decoders available for new systems will average 23,500 per month during that four-month period (with 16,000 being IRD units and 7,500 being standalone decoders), ranging from 16,000 new systems in June to 41,000 in September. Mr. Dunham reported that due to material lead times, full capacity production levels would not be accomplished until September, 1987. He indicated that after ramping up, General Instrument will run at full capacity until it has built up a ninety day inventory.

One measure which seems to be available to alleviate the present shortage will be the reduction of sales of decoders to pirates. Chuck Hewitt, President of SBCA noted, "For every sale by a dealer or distributor of a VideoCipher decoder to a pirate, there is one less decoder available for new system sales."

Another aspect of the current shortage which was discussed pertained to the impact upon programmers' scrambling plans. It is advantageous to the industry to have scrambling and package formation completed at the earliest possible date. Immediate plans for the implementation of scrambling by additional programmers should be reexamined in light of current concerns about the availability of consumer decoders.

DIFFERENTIAL BETWEEN SHIPPED AND AUTHORIZED DECODERS

As of April 30, 1987, there were 263,674 consumer descramblers (2100E and IRD modules) shipped by General Instrument. Of those, only 160,170 decoders had been authorized for the reception of services. General Instrument has made an effort to determine the reasons for the differential between decoders shipped and decoders authorized. Mr. Dunham noted that the distribution pipeline is somewhat longer than originally thought and that between 30,000 and 40,000 2100E (standalone) units and approximately 10,000 to 15,000 IRD modules are in the distribution pipeline, while



approximately 8,000 IRD modules are in manufacturers' inventories. Over 30,000 decoders are suspected to be in the hands of pirates and have been or will be targeted for electronic counter measures. An additional 5,000 to 10,000 descramblers are believed to be stocked by cable operators for sales to TVRO consumers. An additional 10,000 units are believed to be purchased and installed but not authorized, or in the warranty repair cycle.

LONG TERM PLANS FOR INCREASED PRODUCTION

Shortly after meetings with SBCA in April, and in response to increased orders, General Instrument announced plans to substantially increase production capacity for consumer decoders to 40,000 to 50,000 units per month in July, and to 100,000 to 120,000 units per month by September or October. The mix in production between standalone and IRD units will be approximately 50% standalone and 50% IRD's initially, with increases in the percentages of IRD units being planned to satisfy future consumer demand.

Mr. Dunham also discussed the plans which allow Channel Master to begin full production of decoder modules for direct distribution in the marketplace. General Instrument also indicated its willingness to allow the development of an independent lab for testing of competitor's IRD's.

SBCA will expand its statistical reporting to its participating members with the current plan being to provide those members with information pertaining to systems shipped, decoders shipped and authorized, decoder capacity schedule, distributor estimates of decoder distribution by percentage, subscription services authorized, and services to scramble. The SBCA membership was highly receptive to the idea of a statistical reporting plan and during the meeting many members agreed to subscribe to such information. SBCA will continue to work with General Instrument to insure the flow of information on an ongoing basis. General Instrument also advised that it will provide

its marketing model to SBCA and the Industry in hopes that the Industry will have input to make the model more accurate and effective.

PIRACY

Mr. Dunham advised that the efforts of General Instrument to deactivate pirate boxes are continuing as well as technical support of the FBI, Royal Canadian Mounted Police, and other federal and state agency investigations. As of May 21, 1987, General Instrument had deactivated not less than 12,000 pirate boxes. SBCA Chairman, Taylor Howard, remarked that, "Consumers who purchase pirate boxes for \$1400 to \$1500 fail to realize that that amount of money would buy them a legitimate box and about 4-5 years of most, if not all, available scrambled services."

General Instrument also indicated that to date it has found no evidence that new decoders produced with technical updates have been compromised. SBCA applauded the anti-piracy efforts of General Instrument and stated that such efforts are in the best interest of the Industry and consumers. SBCA supports the continued efforts to defeat piracy.

FACT SHEET

It is hoped that SBCA's continuing efforts to provide information to the industry will result in a better understanding of the market by all parties and help to avoid future shortages. Attached is a fact sheet detailing and summarizing information learned during the SBCA meetings.

VIDEOCIPHER FACT SHEET

Accounting for "missing" units:

- 30,000 to 40,000 2100E standalone units in transit (45 day pipeline)
- 10,000 to 15,000 IRD modules in transit (45 day pipeline)
- 8,000 IRD modules in manufacturer inventory
- 5,000 to 10,000 in cable systems' inventory
- Over 30,000 suspected pirate boxes that have been or will be targeted for electronic counter measures
- 5,000 to 10,000 misc. (installed but not subscribing; units being serviced; units voluntarily disconnected; modules used in Amnesty returns)

Distribution Pipeline:

Factory to Shipping Dock (Puerto Rico)	3 days
Boat and Truck Shipment to North Carolina	7 days
North Carolina to Distributor	8 days
Distributor to Dealer	6 days
Dealer to Consumer	15 days
"Murphy" Time (Shelf and Transit)	<u>6 days</u>

Total Distribution Pipeline Time = 45 days

Fact Sheet Continued

Commercial Decoders

- 26 Scrambled transponders require approximately 125,000 commercial decoders for cable head-ends and SMATV facilities. (136,000 Commercial decoders have been shipped.)
- Current shipping levels are 7,000 to 8,000 commercial decoders per month. Production levels for commercial units will be reduced in third quarter 1987 and thereafter.
- Shortage in commercial market may be largely attributable to purchase by cable systems for future scrambled channels.

Consumer Decoders

Present Situation (short term):

- Average of 30,000 2100E units shipped/mo. in June, July, August, September
- Average of 20,000 IRD units shipped/mo. in June, July, August, September
- SBCA survey of Distributors Indicates:
 - 75% of 2100E units go to installed systems.
 - 20% of IRD units go to installed systems.
- Projected June-September new systems average descrambler availability (based upon current allocations by dealers and distributors):

7,500 w/2100E/mo.

16,000 w/IRD/mo.

23,500 total new systems/month

SBCA Statistical Reporting Service (for participating members only)

SBCA will produce monthly statistical reports to the SBCA members, through accounting firm of Ernst & Whinney with the following information:

- Systems Shipped
- Decoders Shipped and Authorized
- Decoder Capacity Schedule

- Fact Sheet - Continued
- Distributor Estimates of Decoder Distribution - New vs. Existing Systems
- Subscription Services Authorized
- Services to Scramble

Piracy

- Over 30,000 suspected pirate boxes that have been or will be targets for electronic counter measures
- General Instrument plans future electronic counter measures and continued efforts to thwart piracy.
- General Instrument intends to proceed with legal actions now pending and foresees additional lawsuits against piracy at all levels.
- General Instrument continues to provide technical support for FBI, Royal Canadian Mounted Police and other government agency antipiracy investigations.

